

Department of Gaming

| | FY 2020 ACTUAL | FY 2021 ESTIMATE | FY 2022 APPROVED |
|---|-------------------|---------------------|---------------------------------|
| OPERATING BUDGET | | | |
| <i>Full Time Equivalent Positions</i> | 155.8 | 155.8 | 155.8 ^{1/} |
| Personal Services | 4,072,800 | 4,739,700 | 4,739,700 |
| Employee Related Expenditures | 1,498,500 | 1,654,800 | 1,654,800 |
| Professional and Outside Services | 888,600 | 1,000,000 | 1,000,000 |
| Travel - In State | 211,400 | 250,700 | 250,700 |
| Travel - Out of State | 24,400 | 30,000 | 30,000 |
| Other Operating Expenditures | 1,210,700 | 1,524,000 | 2,297,900 |
| Equipment | 109,400 | 0 | 0 |
| OPERATING SUBTOTAL | 8,015,800 | 9,199,200 | 9,973,100 |
| SPECIAL LINE ITEMS | | | |
| Arizona Breeders' Award | 250,000 | 250,000 | 250,000 |
| Casino Operations Certification | 2,093,200 | 2,176,500 | 2,104,900 |
| County Fairs Livestock and Agriculture Promotion | 2,509,500 | 2,509,500 | 5,759,500 ^{2/} |
| Division of Racing | 1,592,000 | 2,318,300 | 2,261,100 |
| Problem Gambling | 1,752,700 | 2,344,300 | 2,484,000 |
| Racetrack Purse and Maintenance and Operations Fund | 0 | 0 | 5,000,000 ^{3/} |
| Racing Purse Enhancement | 0 | 0 | 5,000,000 ^{4/} |
| AGENCY TOTAL | 16,213,200 | 18,797,800 | 32,832,600 ^{5/} |
| FUND SOURCES | | | |
| General Fund | 2,509,500 | 2,509,500 | 15,759,500 |
| <u>Other Appropriated Funds</u> | | | |
| Arizona Benefits Fund | 9,468,500 | 11,243,500 | 12,012,100 |
| Fantasy Sports Contest Fund | 0 | 0 | 145,000 |
| Racing Regulation Fund | 1,742,100 | 2,466,000 | 2,411,500 |
| Racing Regulation Fund - Unarmed Combat Subaccount | 99,900 | 102,300 | 99,600 |
| State Lottery Fund | 300,000 | 300,000 | 300,000 |
| Tribal-State Compact Fund | 2,093,200 | 2,176,500 | 2,104,900 |
| SUBTOTAL - Other Appropriated Funds | 13,703,700 | 16,288,300 | 17,073,100 |
| SUBTOTAL - Appropriated Funds | 16,213,200 | 18,797,800 | 32,832,600 |
| Other Non-Appropriated Funds | 790,500 | 443,900 | 443,900 |
| TOTAL - ALL SOURCES | 17,003,700 | 19,241,700 | 33,276,500 |

AGENCY DESCRIPTION — The Department of Gaming regulates tribal gaming activities as authorized by the Arizona Tribal-State Gaming Compacts. The agency is funded by the Arizona Benefits Fund, which receives a portion of tribal gaming revenues to pay for regulation of tribal gaming and prevention of problem gambling. The agency is also responsible for certifying casino employees and vendors working with casinos. The department receives monies from the Tribal-State Compact Fund through casino employee and vendor certification application fees. The department's responsibilities include the Division of Racing.

FOOTNOTES

- ^{1/} Includes 73.5 OF FTE Positions funded from Special Line Items in FY 2022.
- ^{2/} The amount appropriated to the county fairs livestock and agriculture promotion line item is for deposit in the county fairs livestock and agriculture promotion fund established by section 5-113, Arizona Revised Statutes, and to be administered by the office of the governor. (General Appropriation Act footnote)
- ^{3/} The appropriation made in the racetrack purse and maintenance and operations funding line item shall be distributed to commercial live racing permittees based on each permittee's three-year average of race days reflected in the length of the permit. The monies shall be used to enhance the general purse structure and for track maintenance and operations. (General Appropriation Act footnote)

- 4/ The amount appropriated to the racing purse enhancement line item shall be distributed to a recognized nonprofit horsemen's organization that has represented since 1988 the horsemen participating in racing meetings to be used to promote racing and enhance the general purse structure for eligible horse races held in this state. (General Appropriation Act footnote)
- 5/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Administrative Expenses

The budget includes \$10,055,200 in FY 2022 for administrative expenses, which consists of \$9,910,200 from the Arizona Benefits Fund and \$145,000 from the Fantasy Sports Contest Fund. The appropriation from the Arizona Benefits Fund serves as a cap on the level of spending. The department's permissible spending level will be determined by the level of gaming revenues. Pursuant to the Gaming ballot initiative (A.R.S. § 5-601.02) and the Tribal-State Gaming Compacts, the department's administrative expenses from the Arizona Benefits Fund, excluding Problem Gambling, are limited to the greater of \$8,000,000, or 9% of state tribal gaming revenues.

In FY 2021, Gaming had the authority to spend \$9,199,200. In FY 2022, 9% of tribal gaming revenues are forecasted to be \$9,828,100. As a result, the budget increases Gaming's FY 2022 Arizona Benefits Fund expenditure authority by \$628,900 to a level of \$9,828,100. The department can expend the actual 9% level or the expenditure authority level, whichever is lower.

Problem Gambling

The budget includes \$2,484,000 in FY 2022 for Problem Gambling, which consists of \$2,184,000 from the Arizona Benefits Fund and \$300,000 from the State Lottery Fund.

The department's permissible spending level for Problem Gambling from the Arizona Benefits Fund will be determined by the level of gaming revenues. Pursuant to the Gaming ballot initiative and the Tribal-State Gaming Compacts, the department's Problem Gambling expenses from the Arizona Benefits Fund are limited to 2% of revenues.

In FY 2021, Gaming had the authority to spend \$2,044,300 from the Arizona Benefits Fund. In FY 2022, 2% of tribal gaming revenues are forecasted to be \$2,184,000. As a result, the budget increases Gaming's FY 2022 Arizona Benefits Fund expenditure authority by \$139,700 to a level of \$2,184,000. The department can expend the actual 2% level or the expenditure authority level, whichever is lower. *(See Gaming Revenues for additional details.)*

Operating Budget

The budget includes \$9,973,100 and 82.3 FTE Positions from the Arizona Benefits Fund in FY 2022 for the operating budget. These amounts consist of:

| | FY 2022 |
|-----------------------------|----------------|
| Arizona Benefits Fund | \$9,828,100 |
| Fantasy Sports Contest Fund | 145,000 |

FY 2022 adjustments are as follows:

Align Appropriation with 9% of Gaming Revenues

The budget includes an increase of \$628,900 from the Arizona Benefits Fund in FY 2022 to align the appropriation level for the department's operating budget with 9% of anticipated FY 2022 state gaming revenues. *(See Table 2 for more information on projected state revenues and department allocations.)*

Fantasy Sports Contest Administrative Funding

The budget includes an increase of \$145,000 from the Fantasy Sports Contest Fund in FY 2022 to fund the department's cost of administering and regulating Fantasy Sports Contests in Arizona. *(Please see Sports Betting/New Compacts narrative below for more information.)*

Arizona Breeders' Award

The budget includes \$250,000 from the Racing Regulation Fund in FY 2022 for the Arizona Breeders' Award. This amount is unchanged from FY 2021.

This line item funds awards to the breeder of every winning horse foaled in the state. In FY 2020, this line item will fund awards equal to 25% of the purse won by the horse.

Casino Operations Certification

The budget includes \$2,104,900 and 28 FTE Positions from the Tribal-State Compact Fund in FY 2022 for Casino Operations Certification. FY 2022 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(71,600) from the Tribal-State Compact Fund in FY 2022 for statewide adjustments.

The department has the responsibility for investigating and certifying all vendors that provide over \$10,000 per month of goods and services to tribal gaming facilities and all tribal gaming employees, excluding food and beverage personnel who are certified by the relevant tribal gaming office. Certification application fees provide funding for the Casino Operations Certification Special Line Item.

County Fairs Livestock and Agriculture Promotion

The budget includes \$5,759,500 from the General Fund in FY 2022 for County Fairs Livestock and Agriculture Promotion. FY 2022 adjustments are as follows:

Additional County Fair Funding

The budget includes an increase of \$3,250,000 from the General Fund in FY 2022 to increase funding for county fair racing. Of the \$3,250,000 amount, \$2,000,000 is designated as one-time while the remaining increase of \$1,250,000 is ongoing. The 3-year budget plan states that the \$1,250,000 increase will become \$2,250,000 starting in FY 2023.

Monies in this line item are deposited in the County Fairs Livestock and Agriculture Promotion Fund in the Office of the Governor. The fund is used to promote Arizona's livestock and agricultural resources and conduct an annual Livestock Fair at the Coliseum and Exposition Center.

Division of Racing

The budget includes \$2,261,100 and 40.5 FTE Positions in FY 2022 for operating costs associated with the Division of Racing. These amounts consist of:

| | |
|--|-----------|
| Racing Regulation Fund | 2,161,500 |
| Racing Regulation Fund - Unarmed Combat Subaccount | 99,600 |

FY 2022 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(57,200) in FY 2022 for statewide adjustments. This amount consists of:

| | |
|--|----------|
| Racing Regulation Fund | (54,500) |
| Racing Regulation Fund - Unarmed Combat Subaccount | (2,700) |

The Division of Racing regulates the pari-mutuel horse racing industries through the supervision of race meetings, screening of license applicants, collection of taxes and fees, and assessment of fines or other penalties.

The Racing Wagering Assessment (RWA) is a regulatory assessment from each commercial racing permittee payable from amounts deducted from pari-mutuel pools by the permittee. All monies received from the RWA are deposited into the Racing Regulation Fund, which is the primary funding source for the Division of Racing. The Division of Racing also oversees the Arizona Boxing and Mixed Martial Arts Commission, which is responsible for licensing, investigating, and regulating professional boxing, Toughman, and nontraditional fighting contests within Arizona. The budget continues to include \$102,300 from the Racing Regulation Fund - Unarmed Combat Subaccount in FY 2022 as part of the Division of Racing line item to provide funding for the Division of Boxing and Mixed Martial Arts.

Problem Gambling

The budget includes \$2,484,000 and 5 FTE Positions in FY 2022 for Problem Gambling. These amounts consist of:

| | |
|-----------------------|-----------|
| Arizona Benefits Fund | 2,184,000 |
| State Lottery Fund | 300,000 |

FY 2022 adjustments are as follow:

Align Appropriation with 2% of Gaming Revenues

The budget includes an increase of \$139,700 from the Arizona Benefits Fund in FY 2022 to align the appropriation level for the Problem Gambling line item with 2% of anticipated FY 2022 state gaming revenues.

Monies in this line item are for the department to provide problem gambling prevention, treatment and education programs. Pursuant to A.R.S. § 5-601.02 and the Tribal-State Gaming Compacts, this is funded from 2% of tribal revenues received by the state that are appropriated to the department for this purpose. *(See Table 2 for more information on projected state revenues and department allocations.)*

Racetrack Purse and Maintenance and Operations Funding

The budget includes \$5,000,000 from the General Fund in FY 2022 for a Racetrack Purse and Maintenance and Operations Fund line item. FY 2022 adjustments are as follows:

Racing Purse Enhancement Funding

The budget includes an increase of \$5,000,000 from the General Fund in FY 2022 for distribution to commercial live racing permittees to support the sport.

Monies in this line item are to enhance purse structure and for racetrack purse and maintenance and operations. A General Appropriation Act footnote directs the department to distribute to commercial live racing permittees based on each permittee's 3-year average of race days reflected in the length of the permit.

Racing Purse Enhancement

The budget includes \$5,000,000 from the General Fund in FY 2022 for a Racing Purse Enhancement line item. FY 2022 adjustments are as follows:

Racing Purse Enhancement Funding

The budget includes an increase of \$5,000,000 from the General Fund in FY 2022 for distribution to a nonprofit horsemen's organization to promote racing and enhance race purses for eligible races held in Arizona.

Monies in this line item are to be used to enhance purse races and promote the sport for eligible races held in Arizona. A General Appropriation Act footnote directs the monies to be distributed to a nonprofit horsemen's organization that has represented horsemen in racing meetings since 1988.

Other Issues

Statutory Changes

The Budget Procedures Budget Reconciliation Bill (BRB) makes the following statutory changes:

- As permanent law, convert a dog racing permit to a harness racing permit by January 1, 2023 if the permittee meets all the qualifications for a harness racing permit.
- As permanent law, amend Laws 2021, Chapter 234 to require the Department of Gaming to transfer all monies in the Event Wagering Fund to the General Fund after up to 10% of monies are used for administrative and regulatory purposes. Previously, the department was required to transfer all monies in the fund to the General Fund on the 25th day of each month.

The Revenue BRB makes the following changes:

- As session law, continue to set the Racing Wagering Assessment at 0.5% in FY 2022 only.

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, Department of Gaming General Fund costs are projected to decrease by \$(1,000,000) in FY 2023 below FY 2022 and have no further change in FY 2024. *(Please see County Fairs Livestock and Agricultural Promotion for further details).*

Existing Tribal Compacts

The Arizona Tribal-State Gaming Compacts regulate tribal gaming activity of Class III, or casino style, gaming on tribal lands in Arizona. The Compacts were initially passed in November 2002 as Proposition 202, and were renegotiated in 2021.

As of March 2021, there are currently 15 tribes operating a total of 25 Class III casinos in Arizona. There are also 6 additional tribes which do not have casinos but have slot machine rights that they may lease to tribes with casinos. *Table 1* displays the maximum number of gaming devices allowed under the Tribal-State Gaming Compacts prior to the March 2021 renegotiation. *(Please see the New 2021 Tribal Compacts section for more information on the revised Tribal-State Gaming Compact).*

Table 1

| Class III Gaming Devices Statewide | | | Allowed by Compacts |
|------------------------------------|---------------|-----------------------------|-----------------------------|
| | FY 2006 | FY 2021 | |
| Poker and Blackjack | | | |
| Tables | 455 | 431 | 3,318 ^{1/} |
| Slot Machines | <u>12,354</u> | <u>13,640</u> | <u>18,158</u> ^{2/} |
| Total | 12,809 | 14,071 ^{3/} | 21,476 |

- ^{1/} While the Compacts set the statewide limit at 3,318 betting tables, the Compacts also set a general limit of no more than 150 betting tables at any one casino.
- ^{2/} While the Compacts set the statewide limit at 18,158 slot machines, the Compacts also set a general limit of no more than 1,400 slot machines at any one casino.
- ^{3/} Figures as of March 2021. Does not include impacts of the new 2021 Tribal Compacts.

New 2021 Tribal Compacts

Proposition 202 included provisions authorizing subsequent amendments to the compacts. Under that process, the Tribal-State Gaming Compacts were renegotiated in March 2021, with the required federal compact approval occurring in May 2021. The new 2021 Tribal Compacts make the following changes:

- Authorize additional gaming devices at certain existing casinos and provide for future device count increases.
- Authorize the following new games at Tribal casinos (with table limits per casino): Baccarat (8), Dealer Controlled Electronic Table Games (3), Roulette (8), Craps (8), Sic Bo (4), Event Wagering and Fantasy Sports Contests.
- Authorize an additional 30 Tribal casinos statewide, subject to tribal, geographic and time restrictions.
- Increase the number of authorized table games at each casino: 25 games at rural casinos (from 75 to 100) and 50 games at urban casinos (from 100 to 150).
- Keeps the existing 1% - 8% Tribal Contribution schedule for the Ak-Chin Indian Community, Gila River Indian Community, Pascua Yaqui Tribe, Salt River Pima-Maricopa Indian Community and Tohono O'odham Nation. All other tribes will now contribute 0.75% of net Class III gaming win.
- Provide for tribal payments to the 2021 Compact Trust Fund and distributions to tribes from the fund.

Event Wagering/Fantasy Sports

Laws 2021, Chapter 234 expanded non-tribal gaming in the state and authorized the following activities. Chapter 234 was conditionally effective upon each Indian Tribe with a gaming facility in the Phoenix Metropolitan Area and Pima County entering into a 2021 gaming compact that received approval from the Federal Government. That condition was met on May 24, 2021.

Event Wagering

Regulations

- The Arizona Department of Gaming (Gaming) licenses and regulate operators who offer Event Wagering (also known as sports betting)
- Authorize 20 operator licenses (10 tribal and 10 non-tribal). Non-tribal operators limited to an Arizona professional sports team/franchise, a sports facility that hosts an annual tournament on the PGA Tour, or a promotor of a NASCAR race in this state.
- Authorize 10 limited operator licenses for racetracks/off-tracking betting sites, which must partner with an operator licensee.
- Sports betting available statewide on mobile platforms from all operator licensees. In-person event wagering available at the locations of the 10 non-tribal operators and their associated 10 limited operator licensees.
- Gaming also authorized to issue management service provider and supplier licenses for companies that assist operators in collecting wagers, paying prizes,

establishing odds, providing equipment and other services.

- Wagers allowed on professional and collegiate athletic events, motor racing events, Olympic events and E-Sport events (competitive video games competitions). Prohibits proposition wagers on collegiate sports. Gaming may prohibit other types of wagering if the activity is deemed to be unfair.
- Establish the non-appropriated Event Wagering Fund, which receives license and tax/fee revenue (*see below*). As modified by the Budget Procedures BRB, 90% of monies are deposited into the General Fund with the remaining 10% available for Gaming uses for administrative costs.

Licensing

- Draft program rules include \$750,000 initial license fee (which includes a non-refundable \$100,000 application fee), followed by \$150,000 annual renewal fee for Operator licenses.
- Initial licenses expected to be issued before September 2021.

Fee Collections

- Require Gaming to establish a fee (tax rate) for the privilege of operating event wagering, with the only limitation that Gaming must consider the highest percentage of revenue share paid to the state under the Tribal Gaming Compact (currently 8%).
- Draft rules establish the event wagering privilege fee at 8% for retail operations and 10% for mobile operations.

Fantasy Sports

Regulations

- Authorize Gaming to license and regulate operators who offer Fantasy Sports contests. The legislation does not limit the number of licensees. Licenses are valid for 2 years. An Indian Tribe with a valid Tribal-State Gaming Compact may operate Fantasy Sports Contests without Gaming licensure.
- Gaming also authorized to issue management company, holding company and supplier licenses for companies sufficiently connected to the Fantasy Sports Operator license.
- Fantasy Sports available statewide on online platforms administrated by licensed operators. Prohibits physical kiosk/machine for Fantasy Sports at retail stores, bars, restaurants, and other commercial establishments. Use of fantasy sports contest kiosks/machines permitted at fraternal organizations, veterans' organizations, and horse racing tracks.
- Establish the appropriated Fantasy Sports Contest Fund, which receives license and tax/fee revenue (*see*

below). Gaming may use up to 10% of fund monies for administrative costs.

Licensing

- Draft program rules include \$2,000 initial license fee, followed by \$1,000 biennial renewal fee for Operator licenses.
- Initial licenses expected to be issued before September 2021.

Fee Collections

- Require Gaming to establish a fee (tax rate) for the privilege of operating fantasy sports contests, with the only limitation that Gaming must consider the highest percentage of revenue share paid to the state under the Tribal Gaming Compact (currently 8%).
- Draft rules establish the fantasy sports privilege fee at 5% for all operators.

Keno

- Authorizes the Lottery Commission to operate Keno and mobile-draw games (*please see the Arizona State Lottery Commission section for more details*).

Other

- Creates the 2021 Compact Trust Fund, administered by ADG to distribute inter-tribal payments as required by the new 2021 Gaming Compact.

Fiscal Impact

The enacted budget assumed new gaming revenue from Chapter 234 would increase General Fund revenues by \$200,000,000 in FY 2023 and \$300,000,000 in FY 2024.

The [JLBC Staff fiscal note](#) provided a different fiscal estimate for the legislation.

| |
|-------------------------------|
| <i>Gaming Revenues</i> |
|-------------------------------|

From FY 2019 to FY 2020, state gaming revenues increased by 3.9% to \$102,037,400. The budget projects that total gaming revenues will decrease to a level of \$90,853,600 in FY 2021 but then increase to a level of \$109,200,800 in FY 2022. The public health emergency declared by the Governor in relation to the COVID-19 pandemic resulted in casino closures during a portion of FY 2020 and the first quarter of FY 2021. The budget assumes 2.5% annual growth for quarters not affected by casino closures. These estimates do include the impact of the 2021 expansion pursuant to the new tribal compacts.

Table 2

Tribal Gaming Distributions Pursuant to Proposition 202 ^{1/}

| Recipient | Proposition 202 Formula | FY 2019 Actuals ^{1/} | FY 2020 Actuals ^{1/} | FY 2021 Projected ^{1/} | FY 2022 Projected |
|--|---|--|--|--|--------------------------------|
| State Government Distribution | 88% of total | \$ 98,152,100 | \$ 102,037,400 | \$ 90,853,600 ^{2/} | \$ 109,200,800 ^{2/} |
| Local Government Distribution ^{3/} | 12% of total | <u>13,149,400</u> | <u>13,970,000</u> | <u>12,389,100</u> | <u>14,891,000</u> |
| Total | 100% of total | \$111,301,500 | \$116,007,400 | \$103,242,700 | \$124,091,800 |
| Allocation of State Government's Share | | | | | |
| Department of Gaming | | | | | |
| Department of Gaming Regulation | \$8 million, or 9%, whichever is greater | \$ 8,835,100 | \$ 9,161,100 | \$ 8,176,800 ^{4/} | \$ 9,828,100 ^{4/} |
| Department of Gaming Problem Gambling | 2% | <u>1,963,100</u> | <u>2,040,700</u> | <u>1,817,100 ^{5/}</u> | <u>2,184,000 ^{5/}</u> |
| Subtotal-Department of Gaming | | \$10,798,200 | \$11,201,800 | \$9,993,900 | \$12,012,100 |
| Other Distributions | | | | | |
| Instructional Improvement Fund (Department of Education) | 56% of remainder | 48,918,200 | 50,877,700 | 45,281,400 | 54,425,700 |
| Trauma and Emergency Services Fund (Arizona Health Care Cost Containment System) | 28% of remainder | 24,459,100 | 25,427,700 | 22,640,700 | 27,212,800 |
| Arizona Wildlife Conservation Fund | 8% of remainder | 6,988,300 | 7,265,100 | 6,468,800 | 7,775,100 |
| Tourism Fund | 8% of remainder | <u>6,988,300</u> | <u>7,265,100</u> | <u>6,468,800</u> | <u>7,775,100</u> |
| Subtotal-Other Distributions | | \$87,353,900 | \$90,835,600 | \$80,859,700 | \$97,188,700 |
| Total | | \$98,152,100 | \$102,037,400 | \$90,853,600 | \$109,200,800 |

^{1/} The numbers displayed herein represent monies distributed to agencies and may not correspond directly with agencies' actual expenditures or appropriation amounts.

^{2/} The budget projects a (10.9)% decline in FY 2021 and 20.1% growth in FY 2022 for tribal contributions to the Arizona Benefits Fund. The budget forecast reflects temporary casino closures during parts of FY 2020 and FY 2021 due to the COVID-19 pandemic and does not reflect possible changes from the implementation of the new 2021 Tribal Compacts.

^{3/} Local distributions may not proportionally match state distributions due to timing issues associated with different fiscal years.

^{4/} While the FY 2021 appropriation includes \$9,199,200 and the FY 2022 appropriation includes \$9,828,100, A.R.S. § 5-601.02H3 requires 9% of state gaming revenues or \$8,000,000, whichever is greater, to be used for the department's operating budget. The department cannot expend above the actual 9% level or the expenditure authority level, whichever is lower.

^{5/} While the FY 2021 appropriation includes \$2,044,300 and the FY 2022 appropriation includes \$2,184,000, A.R.S. § 5-601.02H3 requires 2% of state gaming revenues to be used for problem gambling prevention. The department cannot expend above the actual 2% level or the expenditure authority level, whichever is lower.

Table 3

FY 2020 Tribal Gaming Distributions

